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RESEARCH ARTICLE

INDIA-RUSSIA ENERGY COOPERATION; BLOOMING TIES BEYOND THE HORIZON

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Abstract

Russia and India have a long history of cooperation in the energy sector. The prospects for the development of the energy dialogue are as promising now as they were during the period of friendship between the Soviet Union and India. Since the late 2000s, the Russia-India energy partnership has been enjoying a renaissance. So why is now the time for Russia to think seriously about giving a new impetus to the energy dialogue with India? India is the world's third largest energy consumer and a major energy importer with steadily growing demand. Russia is a key global producer and exporter of petroleum and natural gas. The two countries' needs naturally complement each other. The current energy bilateral cooperation, already strong, can significantly extend to new sources such as Liquefied Natural Gas (LNG). Building on these can be an industry in natural gas vehicles and renewable energy, enabling economic instruments, such as energy benchmarks, and a policy framework, including labour mobility, to develop a skills corridor in energy. This paper examines the current state of Energy and economic relations between India and Russia. It flags the major issues that hinder development of economic ties between the two countries and discusses future prospects for growth. India and Russia have a long-standing relationship and securing an economic and energy partnership is important from both the diplomatic and geopolitical perspectives. Russia has a vital role in ensuring India's energy security in the coming decade. India imports oil, mostly from the volatile region of the Middle East. However, to sustain current high rates of growth, India needs to secure and diversify its energy sources. How Russia is an obvious choice in this respect?

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Introduction:-

Russia and India have a long history of cooperation in the energy sector, and the prospects for the development of the energy dialogue are as promising now as they were during the period of friendship between the Soviet Union and India. Since the late 2000s, the Russia-India energy partnership has been enjoying a renaissance.

India could make a significant contribution to diversifying the geographical coverage of Russian energy supplies. The accession of Crimea and the conflict that erupted in Eastern Ukraine in 04 demonstrated that the Russian energy sector could very well become a target of the European sanctions, even though Europe continues to account for around 80 per cent of Russia's gas exports, and 65 per cent of its oil exports. The main threat to Russian exports is

not the sanctions, which theoretically can be lifted, rather than the colossal changes that have taken place on the energy market over the last 5 years.

Firstly, the shale revolution started to take hold in Europe in 06 with U.S. LNG shipments arriving in Western Europe, and later in Eastern Europe, which had been traditionally considered the domain of Russia's Gazprom. Secondly, the European market has taken its cue from the Asian market, where a fierce price war has been unleashed by oil producers trying to offset the losses they suffered during the period of low prices by increasing their market share. The first delivery of Saudi oil to Poland in September 06 was a direct consequence. Russian companies are still in a good position to withstand the competition for the European markets, but as far as Europe is concerned, energy companies are competing for a market that is gradually shrinking. European countries are reducing hydrocarbon consumption, including through the widespread introduction of renewables and energy efficiency technologies. It is almost exclusively developing countries that account for the growing energy demand, with China and India alone making up half of that growth. And India is taking advantage of the low energy prices by increasing its oil imports faster than any other country in the world, including China.

Similar situation is unfolding on the electricity market. Demand for electricity is not growing in Organisation for Economic Cooperation and Development (OECD) countries, and has even dropped in some regions as a result of energy conservation efforts. But this is not true for India, where extensive development continues; electrification of the country is still not complete. Given India's demographics situation finding a solution to the problem of universal access to electricity will not be easy. This is why Narendra Modi's government has set itself the ambitious task of increasing by 0 the installed capacity of renewables to 5 GW,⁹ and of nuclear energy to 0 GW.

Nuclear Energy:

The resumption of the energy dialogue between Russia and India started with nuclear energy and was determined more by political rather than economic considerations. In 1998, an Annex was signed to the 1988 agreement on the construction of the first stage of the Kudankulam NPP, which at the time had not yet started. However, full-scale cooperation only became possible in 2008 following the decision by the Board of Governors of the International Atomic Energy Agency (IAEA) on the entry into force of the "India-specific" safeguards agreement, and the decision of the Nuclear Suppliers Group (NSG) to suspend restrictions on the export of nuclear materials and equipment, as well as dual use technologies to India (Hibbs 2017 3-4). Indian market has become the second largest in terms of its planned capacity: the total installed capacity of India's nuclear power plants is expected to reach 63 GW by 2032, up from the current 6.2 GW (Shikin & Bandari 2017).

In accordance with the Strategic Vision for Strengthening Cooperation in Peaceful Uses of Atomic Energy between the Republic of India and the Russian Federation, not fewer than 12 nuclear power units of Russian design are set to be built in India before the end of 2020. Rosatom, the only foreign vendor that builds new nuclear power units in India, has already commissioned the first stage of the Kudankulam Nuclear Power Plant (the first and second power units, each with a capacity of around 1000 MW, were commissioned in 2014 and 2016, respectively), and construction of the second stage began in 2017. A General Framework Agreement and intergovernmental credit protocol for the construction of Kudankulam 5 & 6 were signed in June 2017. Both sides are currently negotiating the search for a new site ready to host six additional Russian-designed nuclear power units.

The Russian side insists that the current legislation does not apply to the first stage of the Kudankulam NPP, as the Civil Liability for Nuclear Damage Act was adopted after the intergovernmental agreement was signed. However, unlike Russian legislation, Indian legislation operates retrospectively, meaning that the law could be applied to the first two power units. As for the remaining power units, the sides reached a compromise solution for nuclear liability to be guided by their respective legislation. But this does not remove the contradictions. The fact is that Russia aligns with international norms, stipulating that the operator (in this case NPCIL) assumes full responsibility, while India, whose domestic legislation takes precedence over international law, reserves the right to hold the Russian supplier responsible.

Cooperation in Oil and Gas:

Russia fell into the area of interests of India's state-owned Oil and Natural Gas Corporation (ONGC), which had been actively expanding into foreign markets since the 1990s with a view to gaining access to major oil and gas assets. Since 2001, OVL (ONGC Videsh Limited, a subsidiary of ONGC) has been part of the international consortium on the development of the Sakhalin-1 project, which is being implemented on the basis of a production

sharing agreement. While the Indian side's cooperation in Sakhalin can on the whole be viewed as positive, the Indian investors have not achieved all their goals with regard to the project. It is not economically viable to transport oil produced in Sakhalin to India. And it is still impossible to export the gas produced there due to the lack of the necessary capacity to liquefy the gas and the drawn-out conflict between Rosneft (OVL's partner in the Sakhalin project) and Gazprom, which wants to protect its gas export privileges. Attempts by Indian oil companies to become part of other major projects in Russia – the development of the Shtokman Field, the Trebs and Titov Oil Fields, and Yamal LNG – failed time and again either because of strict Russian regulation with regard to direct foreign investments into strategic industries (including the oil and gas industry), or due to competition from richer and better equipped companies from China and the West. The breakthrough in terms of the participation of Indian companies in major upstream projects in Russia came in May 2016 with OVL's purchase of a 15 per cent stake from Rosneft in Vankor Field for \$1.27 billion. Then, in September, OVL signed an agreement on the acquisition of a further 11 per cent in the project. Rosneft is also in discussions about the possibility of selling a 23.9 per cent share in the same field with a consortium of Indian investors that included Oil India, Indian Oil Corporation and Bharat Petro Resources. Vankor is one of the largest continental oil fields in Russia. If the deals for the purchase of additional shares worth 11 per cent and 23.9 per cent are closed, then the project could prove to be the largest Indian investment in oil sector in Russia since Sakhalin-1 (Simonia 2011 195-265).

In October 2012, Gazprom signed a 20-year agreement with GAIL on the annual supply of 2.5 million tonnes of LNG to India (with deliveries set to begin in 20). And in 2015, Rosneft signed a 10-year contract with Essar to deliver 100 million tonnes of crude oil to Vadinar refinery. On top of this, Rosneft and its partner, the multinational commodity trading company Trafigura, purchased a stake in Essar worth \$13 billion. As part of the deal, Rosneft will receive 49 per cent of Vadinar Oil Terminal, the second largest refinery in India, as well as a network of 2700 Essar-branded petrol stations.

India-Russia Energy Partnership: The View from India:

India is the world's third largest energy consumer and a major energy importer with steadily growing demand. Russia is a key global producer and exporter of petroleum and natural gas. The two countries' needs naturally complement each other. The current energy bilateral cooperation, already strong, can significantly extend to new sources such as Liquefied Natural Gas (LNG). Building on these can be an industry in natural gas vehicles and renewable energy, enabling economic instruments, such as energy benchmarks, and a policy framework, including labour mobility, to develop a skills corridor in energy.

Energy Priorities for Indian Policymakers:

India will have the fastest growth in demand among the major global energy markets for several years. Indian policymakers face two major challenges to meet that demand. The first challenge is securing imports and pricing. India's annual energy consumption, currently at 723 million tons oil equivalent (MTOE), has grown at a compounded rate of 5.75% over the last decade (2007-2017). By 2040, India's oil demand is expected to rise to 10 million barrels/day (bpd) from 4 million bpd at present. Consumption of natural gas is projected to increase to 175 billion cubic meters (bcm), up from 50 bcm at present. Most of this demand will be met via imports – and must be at an affordable price that doesn't hurt India's economic growth. The second challenge is connected to cleaning the energy mix. Coal has a 57% share in India's energy mix – double the global average. Environmental concerns – urban air quality and global warming – require India to reduce its reliance on coal. Renewable energy at home is cheaply available, but is intermittent. The easy and immediate option is the affordable import of natural gas, which can complement renewable energy to replace coal and can also be used as a vehicle fuel instead of oil – both of which will cut air pollution.

India and Russia: Towards the Future:

As Russia's primary market, the EU, turns to renewable energy, Russia needs new customers for its oil and gas exports. Investing in downstream assets in energy importers, such as India, can help secure new customers. Collaborating on LNG Russia needs to find new markets for its gas as the EU seeks alternative sources of supply and the United States becomes a gas supplier. Converting Russia's energy export infrastructure is a solution: converting natural gas into LNG and exporting it via tankers potentially opens up the world market for Russia. So far, Russia has only one operational LNG terminal at Sakhalin, with another under construction.

India has four operational LNG import terminals – at Dahej, Hazika, Dabhol, and Kochi; with nine more proposed. These terminals can be the destination for some of Russia's gas exports.

Sharing of Technology/Expertise:

Technology movement has so far been from Russia to India. Since the 1960s, India has been the recipient of Russian technology as Russia is a technology power. More recently, the Kudankulam Nuclear Power Plant, being built with Russian collaboration, is an example. However, India too has strengths in technology that can be mutually beneficial, namely in wind energy and natural gas mobility. Russia's abundance of fossil fuels has left renewable energy virtually unexplored. In 2015, only 0.024% of Russia's total energy requirement.

was met by renewable energy. That compares with 2.3% for India. Russia has massive wind energy potential, which has so far remained almost entirely untapped. Russia's large capacity of gas fired power, which can be started quickly, is an ideal complement for wind power, which fluctuates. Using renewable energy will reduce consumption of natural gas, which can be exported.

It has set up the world's fourth largest wind energy generation capacity on this manufacturing base. Besides, India has over 3 million natural gas vehicles on its roads – with large fleets in multiple cities. Use of Compressed Natural Gas (CNG) instead of liquid fuels will mean less air pollution in cities. A shift to CNG will also bring down consumption of oil, which can then be exported. Oil is relatively simpler to export to global markets and doesn't require the expensive and specialized infrastructure. There is expertise in creating CNG infrastructure, converting existing vehicles to CNG and in building new vehicles that run on CNG straight from the assembly line in India. This is not merely an issue of technology, but also needs the 'software': setting up a customer-centric business, with high levels of service at pumps, having pumps at proper locations and a well trained staff.

Energy Benchmarks:

The deepest and most liquid exchanges for trading oil futures are in the U.S. and UK – and they use indigenous WTI and Brent as global benchmarks. However, these benchmarks no longer represent the global oil trade and the global oil market, which is in Asia. India and Russia can co-create a new Asian Oil benchmark corresponding to a basket of Asian crudes and trade it on a non-Western exchange; this will reduce the Western dominance of energy financing, and can mitigate the impact of sanctions. India has a mature and well-regulated financial sector – and Indian commodity exchanges such as MCX can provide a platform for producers and consumers of oil and gas to hedge their long-term exposure via financial instruments. For Russian companies such as Rosneft and Gazprom, hedging their sales will also reduce the impact of price fluctuations on profitability.

Contemporary Regime Cementing the Time-tested Partnership:**Lavrov's Visit:**

The diplomatic calendar for India-Russia relations kicks off next week as Russia's long-standing Foreign Minister Sergei Lavrov holds talks with his Indian counterpart S. Jaishankar in New Delhi amid fresh tensions in the extended West Asia region. Mr Lavrov will be a key speaker at "Raisina Dialogue," India's annual foreign policy-strategic dialogue, which will also be attended by foreign ministers and senior officials from several countries.

With the US-Iran tensions escalating in the wake of the killing of a top Iranian commander by a US drone strike, the two countries are expected to exchange views on the fraught situation in the region and jointly push for deescalating the crisis. Besides discussing regional issues, the two foreign ministers are expected to finalise the calendar for a string of high-profile bilateral visits this year. Prime Minister Modi will visit Russia for celebrations in Moscow's Red Square on May 9, dedicated to the 75th anniversary of the Victory in the Great Patriotic War, and BRICS and SCO summits under the Russian chairmanship. Russian President Vladimir Putin will travel to India for the next annual bilateral summit with PM Modi.

"These summit and upcoming intense ministerial level discussions will present opportunities for making new solid steps in bilateral trade and investment, energy, military and technical, space, science and technology, innovation, diamond, film industry, culture and tourism as well as inter-regional cooperation," said Russia's Ambassador to India Nikolay Kudashev in New Delhi.

Bolstering Economic Ties:

This year, the major focus will be on scaling up India-Russia economic ties, which have not kept pace with the high level and quality of strategic and security partnership between the two countries. In this regard, the two sides are intensifying negotiations for an early conclusion of the Free Trade Agreement between the Eurasian Economic Union (EAEU) and India. This issue will figure prominently in talks during Mr Lavrov's visit to India next week. This agreement is crucial as it opens new avenues for third country partnership in the Central Asia-Eurasian regions.

The EAEU is also bracing to begin talks on a preferential trade agreement with India. EAEU has signed free trade agreements with Serbia and Singapore.

The next round of the Russian-Indian Strategic Economic Dialogue will be held this year, with the focus on transport, agriculture, small and medium enterprises, industrial collaboration and digital transformation.

India's development partnership with Russia is also set to be strengthened further in the coming months. "We see much potential for cross-sector cooperation springing from such Indian national programs as Make in India, Digital India, Smart Cities, as there is a lot of common ground and mutually enriching experience," said the Russian envoy. "We are examining ambitious projects in metallurgy and engineering, pharmaceuticals, infrastructure, transport, e-governance, information technologies and many other," he added.

Looking ahead, given the new volatility in international relations and the shifting geopolitical landscape, as the recent US-Iran stand-off shows, India and Russia are set to enhance their coordination on a range of regional and global issues, including shaping an inclusive and multipolar international order.

Conclusion:-

Given the fact that Russia and India have similar views with regard to a more just world order, including the international architecture of energy security, it would be short-sighted to limit the energy partnership to a purely bilateral agenda. Partnership with Russia could also give Indian companies a boost in terms of increasing their chances when competing for foreign assets. For Russian companies, an alliance with partners in India would open up the South Asian, Southeast Asian and East African markets. Russian companies should consider Indian investors as potential partners in the development of the resources on the Continental shelf of Russia and of other hard-to-recover reserves, especially considering the lack of Western financing. Nuclear cooperation is also a prospective area of mutual interest. Unlike China, Russia supports India's efforts to become a member of the Nuclear Suppliers Group. Indian nuclear equipment suppliers will target countries that are closer to home, for example Sri Lanka and Myanmar, where they will compete not so much with Rosatom, but rather with Chinese companies that are getting ready to expand into the international market. The renewable energy sources (RES) market is enjoying a real boom period in India, while it has barely even begun to form in Russia. The government of the Russian Federation has set the goal of increasing the share of renewables in the energy balance.

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